



## NORTH CAROLINA Office of *State Human Resources*



# Summary of Activity Under FY2018-19 Pilot Legislation

OSHR Classification and Compensation Team

February 14, 2019

# Objectives

- Pertinent Legislation
- Pre-Pilot Information
- Pilot Activity
- Recommendations



# Agencies Participating in HR Pilots

- S335 (35.19A.(a)) provides certain agencies job classification and salary administration flexibility:
  - Community Colleges
  - Office of State Controller
  - Agriculture & Consumer Services
  - Insurance
  - Justice
  - Labor
  - Department of Public Instruction
  - Secretary of State's Office
  - State Auditor's Office
  - Department of State Treasurer
- S99 (34.19.(a)) provides the Department of Transportation broad flexibility in Salary Adjustment and Retention funding through access to Highway Fund dollars.
  - Calls for application of “accepted human resource professional practices and standards”
- S99 (35.19A.(a)) also provides Council of State agencies sole authority to set salary of its exempt policymaking and exempt managerial positions within the minimum rates and the maximum rates plus 10%.

# Notes

- All agencies face tremendous challenges in fulfilling their missions.
- This presentation focuses on Classification and Compensation activity in relation to accepted human resource professional practices and standards.
- Data reflects largely on DOT because it is operating under significantly different rules and resources.
- All agencies are doing what they can to attract and retain needed talent.
- OSHR supports competitive state employee salaries through consistent, statewide HR systems and strategic use of limited taxpayer funds.

# Pre-Pilot OSHR Review (FY2017-18)

## Salary Exception Requests

- DOT processed ~2,770 Salary Actions
  - 19% (514) of DOT's Salary Actions were submitted as exceptions to OSHR

### Salary Exception Requests: DOT

| Approved | Approved w/Revisions | Request Withdrawn | Denied |
|----------|----------------------|-------------------|--------|
| 287      | 191                  | 30                | 6      |
| 56%      | 37%                  | 6%                | 1%     |

In both examples, requests revised or denied *primarily* due to:

- Lack of justification to support requests **OR**
- Equity concerns **OR**
- Applicant did not qualify for the position/salary

- Other Pilot agencies processed ~1,734 Salary Actions
  - 18% (319) of the Other Pilot Agency's Salary Actions were submitted as exceptions to OSHR

### Salary Exception Requests: Other Pilot Agencies

| Approved | Approved w/Revisions | Request Withdrawn | Denied |
|----------|----------------------|-------------------|--------|
| 269      | 26                   | 17                | 7      |
| 84%      | 8%                   | 5%                | 2%     |

# Pre-Pilot Salary Exception Requests (FY2017-18)

## Example: Promotions

| Job                        | Agency Request | OSHR Decision | Reason for Denial/Approval with Revision  |
|----------------------------|----------------|---------------|---|
| Engineering Supervisor     | 10% increase   | Denied        | Employee had already received a 25% retention increase (~9 months earlier). The current salary was aligned with other employees. Approval of this request would create an inequity. |
| Systems Programmer/Analyst | 65.3% increase | Denied        | Employee did not meet the minimum qualifications for the position; therefore, the request was denied.   |
| Division Director          | 14.0% increase | Denied        | Employee did not have required 2 years of supervisory experience.   |
| Assistant Manager          | 30.3% increase | 20% Approved  | Approved a 20% increase. Documentation provided did not support the full amount of the request.   |
| Admin Support Specialist   | 32.5% increase | 20% Approved  | Approved a 20% increase. The request would have created an inequity with existing staff.  |

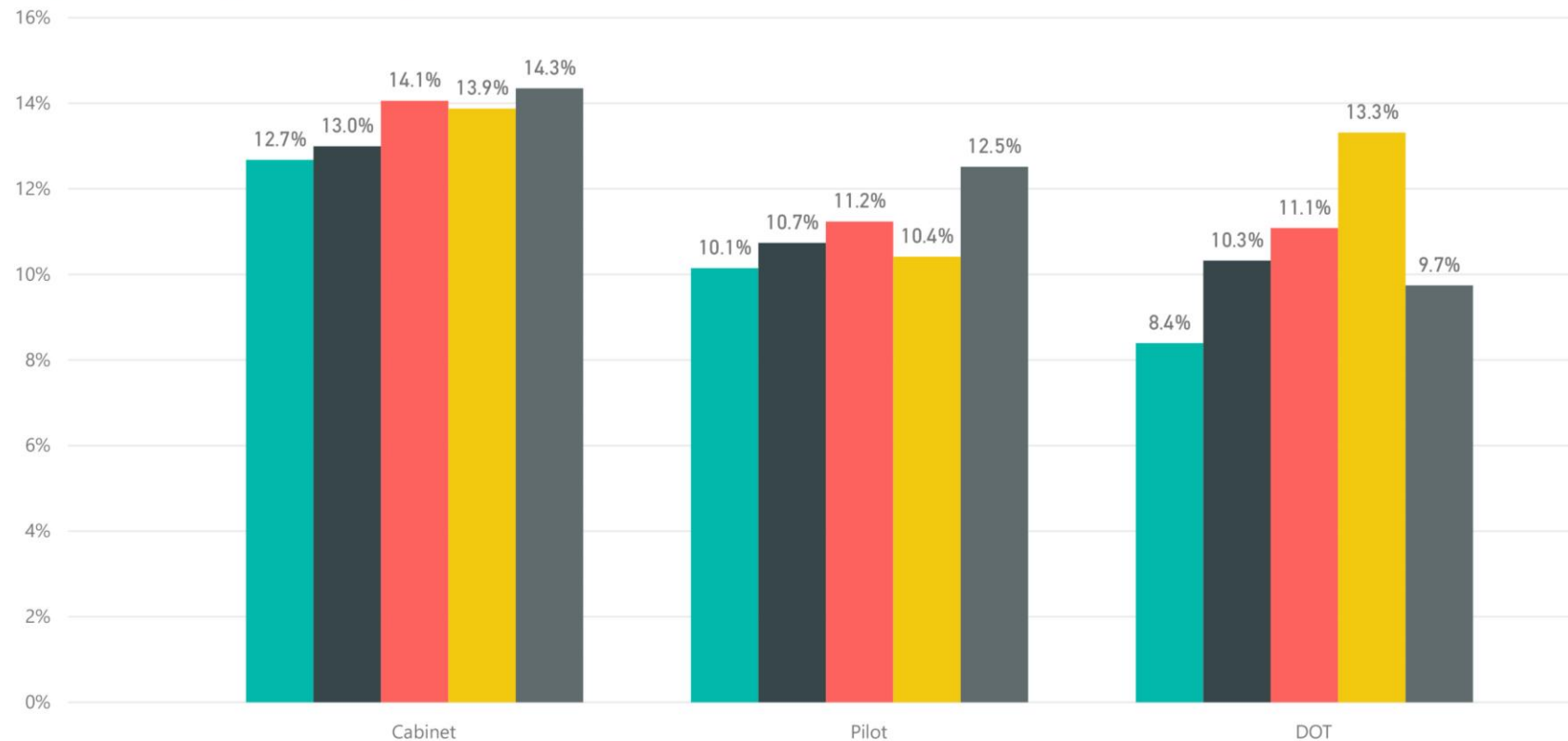
# Total Turnover by Fiscal Year

DOT total turnover spiked in FY2016-17, a year with RTR activity. The total turnover was lower than the Cabinet agency average.

Total Turnover by Fiscal Year

Total Turnover includes Voluntary, Retirement and Involuntary separations  
Cabinet excludes DOT for this analysis

FY ● FY1314 ● FY1415 ● FY1516 ● FY1617 ● FY1718



# Classification Actions: Comparison Pilot vs Non-Pilot (FY2018-19 to date\*)

|   | Reallocation<br>Pay Plan Change<br>Count | Reallocation<br>Position<br>Down<br>Count | Reallocation<br>Position<br>Horizontal<br>Count | Reallocation<br>Position Up<br>Count | Total<br>Count |
|---|--|---|---|--------------------------------------|----------------|
| Agriculture                                     | 0  | 5   | 2   | 23                                   | 30             |
| Community Colleges                              | 1  | 2   | 1   | 17                                   | 21             |
| Insurance                                       | 6  | 11  | 13  | 22                                   | 52             |
| Justice   | 0  | 6   | 0   | 19                                   | 25             |
| Labor   | 0  | 3   | 2   | 1                                    | 6              |
| Public Instruction                              | 4  | 8   | 1   | 29                                   | 42             |
| Sec of State                                    | 3  | 0   | 3   | 7                                    | 13             |
| State Auditor                                   | 1  | 0   | 0   | 3                                    | 4              |
| State Controller                                | 1  | 2   | 1   | 21                                   | 25             |
| State Treasurer                                 | 1  | 7   | 2   | 24                                   | 34             |
| Transportation                                  | 4  | 180                                       | 60  | 538                                  | 782            |
| <b>Grand Total</b>                              | <b>21 (2%)</b>                           | <b>224 (22%)</b>                          | <b>85 (8%)</b>                                  | <b>704 (68%)</b>                     | <b>1034</b>    |
| <b>All Cabinet Agencies<br/>(excluding DOT)</b> | <b>30 (2%)</b>                           | <b>277 (17%)</b>                          | <b>255 (16%)</b>                                | <b>1,034 (65%)</b>                   | <b>1,596</b>   |

\*January 10, 2019

# Classification Examples (FY2018-19 to date)

- The Department of Insurance used its authority to reclassify a vacant position (65027740) to an Accounting Director II (GN20) whereas the agency already has an Accounting Director I (GN18).
  - **Other agencies with similar budgets have only one Accounting Director position.**
- At the Department of Transportation, an Administrative Specialist II (GN07) was reclassified to a Agency HR Consultant II (GN12).
  - **Upon review of the job description, the position functions as a receptionist responsible for timesheets.**
- The Department of Agriculture and Consumer Services used its authority to reclassify position (60011764) from Maintenance/Construction Project Manager II (GN16) to Program Director I (GN17).
  - **Upon review of the job description, the position manages the Property and Construction Division.**
- **Pilot agencies reclassified positions to higher levels, sometimes as many as four or more grades, which represent a significant increase in the complexity and scope of the position – yet the positions do not meet the class concepts for the job.**
  - **Example: DOT reclassified 27 Engineer IIIs (GN16) to Engineer Manager Is (GN20), but 74% of these positions do not have any direct reports.**

# DOT – Salary Increases on Classification Actions (FY2018-19 to date)

- DOT employees received an average salary increase of 8.3% or \$6,317 with the reallocation actions.
  - ~74 % of employees who received a reallocation also received a subsequent In-Range Salary Adjustment
- Note: Council of State agencies had authority only to reclassify vacant positions through the Pilot legislation; therefore, no salary increases were directly associated with reallocation actions.



# Salary Actions: Comparison Pilot vs Non-Pilot FY2018-19 (to date)

|                                       | July 1, 2018 to January 10, 2019        |              |                      |
|---------------------------------------|---|--------------|----------------------|
|                                       | All Cabinet Agencies<br>(Excluding DOT) | DOT          | Other Pilot Agencies |
| # of In-Range Adjustments             | 912                                     | <b>8,145</b> | 388                  |
| Average In-Range Increase             | 5.3%                                    | <b>15%</b>   | 6.1%                 |
| % of Workforce with In-Range Increase | 6%                                      | <b>78%</b>   | 9%                   |
| Average of All Salary Actions*        | 8%                                      | <b>14.9%</b> | 8%                   |

\*Includes promotions, reallocations, in-ranges.

Note: Policy is maximum 10% In-Range Salary Adjustment in a 12-month period

# DOT Salary In-Range Activity (FY2018-19 to date)

- DOT committed nearly \$59 million to In-Range Salary Increases between July 1, 2018 and January 10, 2019.
  - 8,145 DOT employees (78% of DOT workforce), with average increase of 15%
  - DMV employees, who comprise about 14% of all DOT personnel, have not yet been studied and presumably will later receive in-Range Salary Adjustments
- Increases based on a DOT-determined market rate
  - 584 probationary employees received In-Range Salary Adjustments averaging 16% -- higher than the 15% given permanent employees. This is unusual, since employees usually do not get raises until made permanent
  - Employees with low performance ratings/disciplinary actions also received increases
- DOT's mission critical classes are Engineers and Engineer Technicians; however, 3 times as many employees in non-Engineering job families received increases
- In-Range increases percentages were on average 3 times higher than increases for employees in all other Cabinet agencies.

\*\$58,870,393

# DOT's Independent Compensation Study

This shows classifications where DOT's Midpoint is at least 25% higher than OSHR/State Midpoint.  
At least 100 DOT employees currently are above the State maximum for the classification salary range.

| Job Title                          | Current Midpoint | New Midpoint | Difference between OSHR and DOT Midpoint (%) | OSHR Job Salary Max | Is new DOT Midpoint above OSHR Job Salary Max? | #EE | #EE above the Max |
|------------------------------------|------------------|--------------|--|---------------------|--|-----|-------------------|
| Archaeologist II                   | \$54,486         | \$79,958     | 47%  | \$67,060            | Yes  | 6   | 6                 |
| Historic Preservation/Restora Spec | \$54,486         | \$79,958     | 47%  | \$67,060            | Yes  | 3   | 3                 |
| Archaeologist Supervisor           | \$63,552         | \$89,553     | 41%  | \$78,218            | Yes  | 1   | 1                 |
| Warehouse Supervisor               | \$40,049         | \$52,679     | 32%  | \$48,058            | Yes  | 1   | 1                 |
| Equipment Superintendent           | \$54,486         | \$79,958     | 47%  | \$67,060            | Yes  | 2   | 2                 |
| Historic Preservation/Restora Supv | \$63,552         | \$89,553     | 41%  | \$78,218            | Yes  | 1   | 1                 |
| Real Property Manager I            | \$74,128         | \$100,299    | 35%  | \$93,346            | Yes  | 2   | 1                 |
| Ferry Operations Manager           | \$50,450         | \$63,742     | 26%  | \$62,092            | Yes  | 14  | 13                |
| Equipment Area Superintendent      | \$63,552         | \$79,958     | 26%  | \$78,218            | Yes  | 14  | 14                |
| Program Director II                | \$99,916         | \$130,349    | 30%  | \$125,821           | Yes  | 2   | 2                 |

# DOT's Independent Compensation Study

- Midpoint references the Labor Market standard for a classification's salary range.
- DOT established new Midpoints for 244 classifications:
  - 36% of the jobs have a Midpoint up to 9.9% higher than the state's Midpoint
  - 16% of the jobs have a Midpoint 10-14.99% higher than the state's Midpoint
  - 16% of the jobs have a Midpoint 15-24.99% higher than the state's Midpoint
  - 4% of the jobs have a Midpoint 25% higher than the state's Midpoint
- Around 70% of all state employees are below Midpoint:
  - The Departments of Public Instruction and Information Technology each have about 50% of their employees at Midpoint
  - At DOT, 22% of employees are below Midpoint

# Employees Below Midpoint

|                                | # Employees   | # Below Midpoint | % Below Midpoint |
|--------------------------------|---------------|------------------|------------------|
| Administration                 | 445           | 270              | 61%              |
| Administrative Hearings        | 54            | 36               | 67%              |
| Agriculture                    | 1,901         | 1,521            | 80%              |
| Commerce                       | 1,513         | 1,071            | 71%              |
| Community Colleges             | 193           | 122              | 63%              |
| Elections                      | 74            | 55               | 74%              |
| Environmental Quality          | 1,487         | 1,158            | 78%              |
| Health Human Services          | 15,966        | 12,237           | 77%              |
| Information Technology         | 1,090         | 562              | 52%              |
| Insurance                      | 567           | 437              | 77%              |
| Justice                        | 726           | 637              | 88%              |
| Labor                          | 347           | 230              | 66%              |
| Military and Veterans Affairs  | 94            | 85               | 90%              |
| Natural and Cultural Resources | 1,806         | 1,469            | 81%              |
| Public Instruction             | 927           | 483              | 52%              |
| Public Safety                  | 21,481        | 18,034           | 84%              |
| Revenue                        | 1,276         | 983              | 77%              |
| Secretary of State             | 172           | 150              | 87%              |
| State Auditor                  | 136           | 111              | 82%              |
| State Budget & Management      | 56            | 33               | 59%              |
| State Controller               | 158           | 108              | 68%              |
| State Human Resources          | 85            | 67               | 79%              |
| State Treasurer                | 388           | 285              | 73%              |
| Transportation*                | 9,538         | 2,108            | 22%              |
| Wildlife                       | 634           | 394              | 62%              |
| <b>Grand Total</b>             | <b>61,114</b> | <b>42,646</b>    | <b>70%</b>       |

\*14.4% of DOT employees (DMV) have not yet been studied

Note: Employees only (no vacant positions)

# Long Term Impacts

- What we are documenting is just the first step of a Pilot that will have consequential, long term impacts:
  - Agencies historically have operated with relative funding parity, but access to greater resources provides a significant advantage over other agencies
  - At least 100 DOT employees currently have salaries above OSHR/State maximum
  - DMV is scheduled to be reviewed, with potential increases to come from Highway Fund balance
  - Potential for additional In-Range increases within 12-month period
  - Increased the pay gap between the agencies
- Statewide Implementation Challenges:
  - What happens if an employee already paid above the maximum of their state salary range in one agency is offered a lateral or promotional opportunity at another state agency?
  - How long will it be before large numbers of employees at other agencies seek transfers – or demotions – to agencies with better funding for increased salary?

# Comparative Average Salary Analysis of DOT and Other Agencies

| Job Classification                     | DOT Average Salary | #EE | All other Agencies Average Salary | #EE | Difference (%) |
|--|--------------------|-----|-----------------------------------|-----|----------------|
| Archaeologist II                       | \$79,958           | 6   | \$46,131                          | 8   | 73.3%          |
| Archaeologist Supervisor               | \$89,553           | 1   | \$54,776                          | 3   | 63.5%          |
| Historic Preservation/Restoration Spec | \$79,958           | 3   | \$51,167                          | 15  | 56.3%          |
| Chemistry Technician II                | \$57,947           | 2   | \$43,008                          | 34  | 34.7%          |
| Engineer I                             | \$71,326           | 235 | \$56,809                          | 89  | 25.6%          |
| Engineering Director I                 | \$136,866          | 9   | \$102,447                         | 1   | 33.6%          |
| Engineering Manager I                  | \$120,115          | 67  | \$93,223                          | 1   | 28.8%          |
| Environmental Program Consultant       | \$79,958           | 10  | \$62,152                          | 49  | 28.6%          |
| Environmental Specialist I             | \$59,184           | 9   | \$47,325                          | 195 | 25%            |
| Maintenance/Construction Technician II | \$47,890           | 16  | \$38,132                          | 149 | 25.6%          |
| Program Manager I                      | \$94,294           | 10  | \$75,292                          | 81  | 25.2%          |

- Excerpt of classifications in which the average DOT employee salary is at least 25% higher than average employee salary in other state agencies.
- Rows in red show examples that are over maximum of state salary range.

# Concerns with Pilot Legislation

## One Employer, One HR System has become One Employer, Three HR Systems

**Oversight:** At the direction of the General Assembly in 2013, OSHR created a Statewide Compensation Plan and implemented it on deadline, yet the streamlined system was immediately destabilized by Pilots at DOT and Council of State agencies.

- No time for impacts of increased Delegation of Authority and flexibility to be felt statewide on agency level
- Other state agencies will want same Pilot flexibility and funding to recruit and retain employees

**Legal:** Increased legal and audit exposure lessens the State's legal defensibility.

**Fiscal:** By having three systems, we are not being strategic or maximizing use of limited funds.

### **Conflicts with HR Professional Practices and Standards**

- Inconsistent compensation and Pay Philosophy from agency to agency
- Competition between agencies for best employees
- Employee and supervisor morale suffers
- OSHR statutory obligation to monitor and oversee is jeopardized or eliminated

# A Tale of Two Midpoints

- Original focus appeared to be better positioning DOT to recruit and retain employees in positions that are mission critical – notably, engineers and related positions.
- With its independent labor market study, focus shifted to treating all employees the same and advancing them to the agency's new Midpoint.
  - Inconsistent with human resource best practices, this new standard was established with only national compensation data, which in some cases set DOT Midpoint higher than the maximum of state salary range
  - Increases averaging 15% were provided to 8,100+ employees, including classifications found at numerous other state agencies
  - In conflict with policy, provided regardless of probationary, performance or disciplinary status

# Midpoints, continued

- **All state agencies would like to provide competitive, market-based pay to recruit and retain employees, but lack the resources to do so.**
  - Allowing one agency access to additional funding creates an imbalance across state government, with lower pay and morale at other agencies
- **Inequities across state government will increase over time if agencies continue to operate under multiple sets of rules.**

# Salary Administration Delegated to Agencies

OSHR provided more flexible Salary Administration Guidelines and works with agencies to review exception requests and establish non-standard agreements for certain classifications.

|                                 | OLD SYSTEM<br>Pre-June 1, 2018<br>Implementation   | NEW SYSTEM<br>Planned in 2016 & 2017<br>(not implemented)   | NEW SYSTEM<br>Post June 1, 2018<br>with Interim Salary Guidelines  | UNDER PILOT<br>LEGISLATION   |
|---------------------------------|--|---|--|--|
| <b>In-Range Increases</b>       | 10% up to max<br>Above max not allowed   | Not to exceed 10% above<br>Midpoint<br>Only employees in 1 <sup>st</sup> , 2 <sup>nd</sup> & 3 <sup>rd</sup><br>Quartiles eligible<br>Above max not allowed | <b>Up to 10%</b><br><b>Above max not allowed</b>   | DOT – Open<br>COS – Open to the max, with 10%<br>above max for Exempt<br>Policymaking and Exempt<br>Managerial |
| <b>New Hire Salaries</b>        | Qualifying salary based on<br>5% per year of education<br>and experience over the<br>minimum | Not to exceed 10% above<br>Midpoint   | <b>Up to the top of the 1<sup>st</sup> Quartile</b><br><b>OR</b><br><b>5% per year/and Quartile</b><br><b>definition/flexibility</b> | (same as above)  |
| <b>Lateral Transfers</b>        | No increase  | Typically, no increase; however,<br>if appropriate, based on pay<br>factors   | <b>Up to 10% to recognize higher</b><br><b>level duties, equity or labor</b><br><b>market</b>  | (same as above)  |
| <b>OSHR Approval Thresholds</b> | > 10% increase – Cabinet<br>➤ 20% increase – Others<br>➤ > \$70,000                          | >20% increase<br>Any salary > 110% of market  | <b>&gt; 20% increase</b><br><b>&gt; \$100,000</b>  | N/A  |

# Salary Administration: Delegated Authority by Pay Plan\*

| General  | IT   | Attorney   | Medical  |
|--|--|--|--|
| <ul style="list-style-type: none"><li>• Up to GN17, which is 1,091 of 1,187 Classifications</li><li>• <b>92%</b></li></ul> | <ul style="list-style-type: none"><li>• Up to IT90, which is 45 of 65 Classifications</li><li>• <b>69%</b></li></ul> | <ul style="list-style-type: none"><li>• Up to AT08, which is 12 of 17 Classifications</li><li>• <b>70%</b></li></ul> | <ul style="list-style-type: none"><li>• Up to MG16, which is 19 of 24 Classifications</li><li>• <b>79%</b></li></ul> |

\*Up to \$100,000 and 20% (previously, up to \$90,000 and 10%)

# Recommendations

1. **Sunset the Pilot legislation, returning to one HR system.**
  - Restore eroding legal defensibility for state with one Pay Structure and Pay Philosophy
  - End acceleration of Pay Inequity among employees and between agencies

**2. Direct all agencies to work collaboratively with OSHR to establish needed flexibility.**

**3. Ask all agencies to work with OSHR to complete full implementation of the new Classification and Compensation System as scheduled.**

**4. Fund the new Classification and Compensation System for all employees and agencies through a substantial Salary Adjustment Fund.**

# One State, One Employer – One HR System

| Why We Need One HR System   | If We Don't ... Checks and Balances   |
|---|---|
| <p><b>Legal:</b> Chapter 126 – Establishes Classification and Compensation System, as well as Employees' Legal Rights and Grievance Process</p> <ul style="list-style-type: none"><li>• Title VII of the Civil Rights Act, Fair Pay Act and Lilly Ledbetter Act</li><li>• State and Federal court cases view equity across agencies</li></ul> | <ul style="list-style-type: none"><li>• <b>Grievance Process:</b> May result in more contested cases before Office of Administrative Hearings</li><li>• <b>Courts:</b> Financial/legal liability resulting from adverse court decisions</li><li>• <b>Media:</b> Salaries are public information and subject to media and public scrutiny</li><li>• <b>SEANC:</b> Advocates for all employees to be paid fairly</li><li>• <b>State Auditor:</b> Consistent practices across state government</li><li>• <b>Turnover Costs:</b> In last 5 fiscal years, turnover rate has been around 12% annually, costing the state tens of millions in recruitment, training and other expenditures</li><li>• <b>Customer service delivery and employee morale</b> are impacted when a reduced staff of experience employees must manage a full team's workload while new employees are continually recruited and trained</li></ul> |
| <p><b>Fiscal:</b> Employee salary is a significant portion of State operating budget</p> <ul style="list-style-type: none"><li>• Pay appropriate salaries for work needed</li><li>• Maximize state funding to recruit and retain</li></ul>  |   |
| <p><b>Good Business and HR Practice</b></p> <ul style="list-style-type: none"><li>• Strategic</li><li>• Consistent pay philosophy</li><li>• Maintain equity</li><li>• Pay market rates to attract and retain (currently 70% of employees are below market rate)</li></ul>   |   |

# One State, One Employer

To ensure consistent application of state and federal laws and human resources best practices across the agencies, universities and local governments we serve, OSHR approaches its mission and function with the “one state, one employer” view.

The Pilots compromise the effectiveness of the state HR system and its legal defensibility.



# Questions?

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